



Fairfax County Internal Audit Office

**Department of Procurement and Material Management
Business Process Audit
Final Report**

July 2017

"promoting efficient & effective local government"

Executive Summary

We performed a business process audit covering procurement, reconciliation, and personnel/payroll administration within the Department of Procurement and Material Management (DPMM). The audit included review of procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, open-ended purchase orders, monthly reconciliations, limited review of accounts receivable and revenue collections, and verifying compliance with Personnel/Payroll Administration Policies and Procedures (PPAPP). The areas covered in PPAPP included time/attendance system and controls, attendance/absence reporting, employee clearance record processing, credit check requirements for positions of trust, and procedures for completing criminal background investigations for employment in sensitive positions.

We found that the department generally had effective procedures and internal controls in place for the handling of purchasing functions, and transactions had adequate evidence of compliance with county policy. However, we noted the following exceptions where compliance and controls needed to be strengthened:

- Control weaknesses were noted in our review of time entry and approval where staff members were both creating and approving the same time entry.
- Credit checks were not performed for five staff members hired into positions of trust within the scope of the audit.
- Travel Authorization Forms were completed after the travel return date for five of the ten non-purchase order transactions tested.
- Two of the three reconciliations reviewed were not completed timely.
- Three of the DPMM Warehouse procurement card transactions tested were not logged in the procurement card transaction log.

Scope and Objectives

This audit was performed as part of our fiscal year 2017 Annual Audit Plan and was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit objectives were to review the Department of Procurement and Material Management's compliance with county policies and procedures for purchasing processes, personnel/payroll administration, and financial reconciliation. We performed audit tests to determine internal controls were working as intended and transactions were reasonable and did not appear to be fraudulent.

The audit population included procurement card, FOCUS marketplace, purchase order, open-ended purchase order, and non-purchase order transactions that occurred during the period of March 1, 2016, through February 28, 2017. For that period, the department's purchases were \$85,435 for procurement cards, \$4,948 for FOCUS marketplace, \$332,008 for purchase orders, and \$21,770 for non-purchase order payments.

Methodology

Audit methodology included a review of the department's business process procedures with analysis of related internal controls. Our audit approach included an examination of expenditures, records and statements; interviews of appropriate employees; and a review of internal manuals and procedures. We evaluated the processes for compliance with county policies and procedures. Information was extracted from the FOCUS and PaymentNet systems for sampling and verification to source documentation during the audit.

Findings, Recommendations, and Management Response

1. Time Entry and Approval Separation of Duties

Our audit noted control weakness in the DPMM time entry and approval process. The audit population included 12,933 time entries. Of those entries there were 62 instances where time entries were initiated and approved by the same individual.

An adequate separation of duties in time entry and approval is vital in preventing erroneous or fraudulent time reporting.

Recommendation: DPMM should implement adequate internal controls to prevent staff from initiating and then approving time for other DPMM employees. The initiator and approver of each time entry should be different.

Management Response: DPMM will notify staff via email that a separation of duties must exist for the time entry/time approval process. Time records will be audited during each pay period to ensure an adequate separation of duties exists.

Note: Management states that these actions were completed on July 11, 2017. IAO will perform a follow-up audit on this item after August 11, 2017.

2. Credit Checks & Positions of Trust

A review of the DPMM list of Positions of Trust was performed in this audit. For each employee on the list who was either hired or promoted into a position of trust during the scope of the audit, we tested to confirm a credit check was performed prior to the employee moving into the position of trust. There were five employees hired into positions of trust within the scope of the audit where credit checks were not performed.

PPAPP Memorandum No. 56, *Credit Check Requirements for Positions of Trust*, states: "Employees who occupy positions of trust are subject to a credit check. Credit checks will be completed upon initial hire and for promotions, transfers, or demotions to a position of trust and every four years thereafter. Positions of trust include all Director, Deputy/Assistant Director and Division Director Positions as well as positions identified by the department director as having significant fiscal or information security responsibility."

Failure to perform credit checks as required increases risk of fraud or abuse by staff who have access to sensitive/confidential financial information.

Recommendation: DPMM should ensure credit checks are performed for the individuals noted in this audit. Credit checks should be performed for all future staff hired or promoted into positions of trust.

Note: During the audit, DPMM began the credit check process for the individuals noted in the audit. The Internal Audit Office (IAO) will follow up on this item to ensure that credit checks are performed.

Management Response: DPMM will re-evaluate the list of positions of trust and perform credit checks for all staff hired/promoted into positions of trust. Management anticipates completing these actions by August 2, 2017.

3. Travel Authorization Forms

Of the ten non-purchase order transactions tested, five were employee reimbursements for non-local travel. Travel authorization forms were completed after the employee returned from the trip for all five instances of non-local travel reimbursements tested. Our audit did note that non-local travel was typically approved by management via email prior to the trip.

Procedural Memorandum (PM) 06-03, *Fairfax County Travel Policies and Procedures*, states: "A completed Travel Authorization Form is required for all non-local and overnight travel including trips where the procurement card is used for any or all expenses." Additional guidance provided in the Travel Tips and Reminders document on the Department of Finance website states: "Before you purchase any tickets or pay for registration you MUST complete a Travel Authorization Form and have department approval. Items purchased without prior approval may not be reimbursed."

Failure to complete a travel authorization form prior to incurring expenses for non-local or overnight travel increases the risk of inappropriate or unauthorized travel expenses and incurring expenses that may not be reimbursed.

Recommendation: DPMM should adhere to the requirements of PM 06-03 and ensure a Travel Authorization Form is completed and approved before any non-local or overnight travel arrangements are made.

Management Response: DPMM will require the Travel Authorization Form to be

completed and signed before travel will be authorized. Email approval by managers will no longer be accepted as adequate authorization of travel.

Note: Management states that these actions have been implemented. IAO will perform a follow-up audit on this item after August 11, 2017.

4. Timeliness of Reconciliations

Of the three monthly FOCUS reconciliations reviewed in this audit, two were not completed timely. The December reconciliation was completed on March 14, 2017 and the January reconciliation was completed on March 15, 2017.

Accounting Technical Bulletin (ATB) 020, *Reconciliation of Financial Transactions*, states: "Reconciliation activities at the transaction level should be completed no later than the last day of the following month."

Failure to perform timely reconciliations increases the risk of erroneous or fraudulent transactions going undetected.

Recommendation: DPMM should ensure that reconciliations are completed timely and no later than the last day of the following month.

Management Response: Staff will be trained as a backup for this function and all reconciliations will be completed by the last day of the following month. Management anticipates completing these actions by August 11, 2017.

5. Procurement Card Transaction Log

Of the twenty procurement card transactions reviewed, three were transactions charged on the DPSM Warehouse card. Two of these transactions were not logged in the card log maintained for the DPSM Warehouse card.

Procurement Technical Bulletin (PTB) 12-1009, *Use of the County Procurement Card*, states: "For general use p-cards, the department shall maintain a log that records purchases as they occur and tracks who is in possession of p-cards. Departments may use a manual or electronic log to record both debit and credit transactions. Entries must be contemporaneous so that they provide up-to-date information on funds expended and should identify the p-card user."

Failure to maintain an accurate card log decreases accountability in card security and also reduces accountability in instances where inappropriate charges are placed on the card.

Recommendation: DPMM should ensure all card use is logged in the established procurement card transaction log for the DPSM Warehouse card.

Management Response: DPMM will provide additional training to Logistics Center p-card administrator and will audit the Logistics Center p-card transaction logs on a

quarterly basis to ensure compliance. Management anticipates completing these actions by August 2, 2017.